



July 1, 2006

Honorable Mayor and Members of the City Council  
City of Rockville, Maryland

It is our privilege to present to you the budget for the City of Rockville (the City) for fiscal year 2007 as adopted by the Mayor and Council on June 5, 2006. The budget supports the Mayor and Council's visions, existing programs and services, and the City's infrastructure. The budget takes into account various external and internal factors that impact the City. These factors and their impact are discussed below.

We are pleased to present a balanced budget that includes a one-cent reduction in the real property tax rate. This is the first reduction since the FY00 budget and brings the rate to \$0.312 per hundred dollars of assessed value for real property, and \$0.805 per hundred dollars of assessed value. In addition, this budget expands the homeowners' tax credit, also known as the circuit breaker, to provide tax relief to the city's low- and moderate-income taxpayers. Most households with annual gross income of up to \$70,000 qualify for this credit on their FY07 real property tax bills.

Staff has continued with format changes that are noticeable throughout the operating budget document and the Capital Improvement Program (CIP) book. A new fund summary capturing all activity is presented in the all funds summary section. In addition, departments have improved both their performance measures that are being presented and the charts and graphics within each department section. In the CIP book, a new page format is included, and additional summaries, such as a listing of projects funded through borrowing, have been added. All content changes in the adopted budget book and CIP book are intended to make the documents more informative and reader friendly.

### **The Decision-Making Environment**

The most prominent factors impacting the FY07 budget are as discussed.

### Economic Climate

The national and regional economic climates impact our finances and budget. Local economic experts agree that the local regional economy will continue its steady growth. Continued strong job and housing market growth are expected, although not at the high rates of recent years.

Overseas demand for construction materials has caused shortages nationally, resulting in sharp increases in the prices of critical construction materials such as concrete, steel, and asphalt. The prices of fuel and electricity have also increased. These higher prices are likely to continue to impact City operations and capital projects into FY07.

Energy costs have also been on the rise. The City's FY07 General Fund budget includes an additional \$670,000 to cover higher energy costs, on top of large increases in the FY06 budget. These costs continue to impact both the operating and capital budgets.

### Property Assessments

Property value assessments and new development are principal drivers of City revenues. For several years, both new development and property values have increased significantly, providing needed revenue to meet the demand for basic municipal services and maintenance of public facilities. The rate of new private development is showing signs of slowing. As the City builds out, less land is available for new development, and that development will tend toward denser urban redevelopment.

The revenue impact of this slowing rate of new development is not readily apparent because property values have been skyrocketing. As noted in this budget, the billable assessed value is expected to increase by 13.8 percent from FY06 to FY07. The City estimates that 82 percent of the increase is attributable to the growth in assessed value of existing property and the remainder is the result of the addition of new residential and commercial properties. While economists do not see prices falling in FY07, the rate of increase is expected to slow. The City anticipates that it will take three to four budget cycles before the assessed value above the ten percent cap on annual increases is fully taxed.

### Tax Relief

Given the rapid rise in home values, the FY07 budget includes a reduction in the real property tax rate as well as a greatly expanded homeowners' tax credit. As mentioned, the rate will drop one cent to \$0.312 per \$100 of assessed value. This 3.1 percent reduction will save homeowners ten dollars for every \$100,000 of effective assessed value, or \$30 for a home assessed at \$300,000, compared to what homeowners would have paid had the rate remained unchanged. The City will receive \$900,000 less in tax revenue than it would have received at the old rate. Nonetheless, tax bills and revenues will increase when compared to FY06 because the increase in assessed value over the past year has more than offset the reduction in the tax rate for the vast majority of properties in the City. In general, the FY07 rate reduction lessens the year-over-year increase in tax bills. It does not reverse that increase.

This budget also addresses the need for greater tax relief for low- and moderate-income homeowners who are least able to afford the higher taxes that accompany increased assessments. Specifically, the City will quadruple the size of its homeowners' tax credit, or "circuit breaker" program, which substantially cuts tax bills based on household income. For FY07, the credit will apply to most households with gross income up to \$70,000; roughly double the income limit for FY06, and the highest for any jurisdiction in the state. For very low household incomes, the credit eliminates the City tax bill on the first \$300,000 of assessed value. The amount of the credit decreases as gross household income rises, until reaching zero at \$70,000.

The City was able to offer the credit as the result of successfully seeking a change to state law that severely restricted municipal authority in this area. Rockville's first homeowners' tax credit, passed in FY06 under the old state law, only covered households that were able to show less than \$35,000 of gross income. That year, 366 households participated and received an average tax credit of \$200. The City expects to see a marked increase in participation due to the broader income range that will be covered in FY07.

#### Mayor and Council Vision

The FY07 adopted budget allocates resources to focus on the priorities of the Mayor and Council. In February 2006, the Mayor and Council identified their vision for the City of Rockville in 2020, along with associated priorities to be accomplished in the next two years. Their vision and the associated two-year priorities were adopted in May 2006 to serve as guidelines to staff when planning programs, services and projects for the community. The six themes are as follows (complete descriptions can be found on page 2-1 of this book):

- A Distinctive Place
- A City of Neighborhoods
- Communication and Engagement
- An Exceptional Built Environment
- Balanced Growth
- Fiscal Strength

#### Town Center Redevelopment

The creation of a vibrant Town Center has been the City's primary goal for the past several years. This project's completion during FY07 will be the highlight of the year. The redeveloped Town Square will serve as the economic, cultural, and social center of the City. The project is currently under construction and will include a new County library, the Rockville Arts and Innovation Center and a County business incubator, a public square, 640 residential units, approximately 175,000 square feet of retail and restaurant space. There will be three public parking garages with approximately 973 parking spaces.

The success of this project has required a sustained commitment of resources and strong project management. The continued success of the project will require a commitment of both staff and financial resources, and the FY07 budget includes for the first time a Town Center Management District, as discussed

below. The City's funding commitment to the successful completion of Town Square remains steadfast.

The Town Square project in total has \$137 million in budget authority, of which the City has bonded for just over \$45.5 million. The bonds are payable over the next thirty years. During construction, some of the City's debt ratios will marginally exceed our policy targets. While we are confident the City has the resources to support the increased debt at the current approved level, we are left with less flexibility to fund new projects or respond to major challenges or opportunities.

During FY06, the City approved and began constructing a five-story public building adjacent to the County Library. The City will own a rooftop facility and two floors of the building. The City will lease the two floors to a Rockville non-profit arts organization, VisArts (formerly RAP) that is relocating back into Town Square. The top two floors will be owned by the County and will house its business incubator program. The developer (FRIT) will own the bottom floor retail space.

#### Town Center Management District

FY07 will be the beginning of the Town Center Management District. The District, the boundaries of which are the boundaries of the Town Square project, will be formed to provide maintenance services for the appropriate level of upkeep of the area. The District's budget will eventually be included within the City's budget, and a separate special revenue fund will be established to properly account for the revenues and costs of its operation. During FY07, the developer will provide the District's services. It is anticipated that a special tax rate for all properties within the district will be levied beginning in FY08.

#### Town Center Parking District

The Town Center Parking District will become fully operational in FY07. This District was formed to pay the operational costs, including debt service, of the three garages within Town Square. The exact budget and rates to be set are still being discussed and analyzed by staff, along with the operational components of the garages. Sufficient resources are being programmed to provide for four additional Parking Enforcement Officers to enforce the additional 1,000+ spaces that will be in Town Square. The District plays an important role in the entire City parking operation, and as discussed under "Parking Fund" it does not appear that in its early years of operation, the District will be self-supporting. The District will require significant sustained contributions from the General Fund to close the parking revenue gap.

#### New Operating and Personnel Expenses

The Thomas Farm Community Center, the City's first major facility west of I-270, is planned to include a gymnasium, fitness center, game/teen room, multi-purpose rooms, bathroom/locker rooms, a kitchenette, as well as offices and storage. Net annual operating costs for the Center are projected to be approximately \$280,000. A small part of these costs are included in the FY07 budget, but the full impact will be felt in FY08.

In order to fulfill the City's goals of ensuring a sustainable, energy-efficient and environmentally sensitive community, and due to the increasing complexity of environmental regulatory compliance requirements, the City has created a new Environmental Management Division in the Department of Public Works. For FY07, this Division will consist of one new Chief of Environmental Management, and one existing Environmental Specialist that was transferred from the Department of Community Planning and Development Services. This new division added \$200,000 to the FY07 operating budget.

Other major operating costs that impact the budget are utility costs. Throughout the organization, staff does what they can to reduce consumption of electricity, gas and fuel. Despite these conservation efforts, the costs continue to rise and this will continue to impact future budgets.

As the City's population grows and new developments such as Town Center and Twinbrook Commons come on line, our public safety needs will increase. The Mayor and Council's intent is to add one additional police officer over the next three years, having added one each in FY06 and FY07.

Staff does not anticipate that the competitiveness of the labor market will change in the near future. The City will continue to face the challenges of low unemployment within the region, a national labor market pool and the retiring baby boomer generation. Talented individuals have expectations for professional development, and the City must continue to provide development opportunities, as well as to pay competitive salaries and benefits in order to both retain and attract exceptional employees.

#### Maintaining our Infrastructure/Capital Projects

Investing in the City's infrastructure is critical. Deteriorating roads, bridges, public buildings, parks and utility systems in too many cities and counties across the country stand as unfortunate examples of what happens when communities fail to invest sufficiently. Maintaining and enhancing these investments is critical to the City's future, as increasingly expensive as it is. The City, accordingly, has a fairly robust Capital Improvement Program (CIP) that addresses many but not all of these infrastructure needs. Some of the projects the community needs are unfunded, and we need to work on our overall prioritizing and planning to meet these needs. Chief among our unfunded needs are the City-wide sidewalk program, annual street maintenance, and improvements at Gude Drive maintenance facility.

Other major projects place additional significant demands on our fund balance, including the completion of phase one of the Mattie J.T. Stepanek Park, the Thomas Farm Community Center, and the fitness center/meeting room at the Swim Center. Regardless of how well managed and monitored, the unexpected can occur when undertaking projects of such size and complexity.

#### Rockville's Changing Population

Rockville is fortunate to have citizens representing a wide and diverse range of cultures in our community, and we welcome the opportunity to accommodate and adapt our services to meet their needs. The City needs to continue evaluating our

overall communication strategy for how we reach all Rockville residents, and have them engage in the public process. We need to continue to adapt our recreation, public safety and social service programs to ensure we are meeting the needs of our population. We also need to focus on recruiting a more diverse City workforce, with an emphasis on acquiring multi-lingual staff.

Consistent with nationwide trends, Rockville's population is aging. While our services to seniors are widely regarded as the best in the region, the large proportion of the City's population approaching retirement age presents challenges and requires that we adapt our services accordingly. As we look forward we need to consider what services to provide to seniors, how best to provide them and how to pay for them. A task force of residents is working on recommendations for the 20-year future of Rockville's senior citizen services.

The City also supports those with significant human service needs through grants to caregiver agencies. The FY07 adopted budget includes approximately \$427,000 for grants to these agencies. Approximately one third of the total (\$158,000) supports agencies that provide housing assistance or food and clothing services. Approximately 43 percent of the total (\$184,000) supports medical programs, home health care for seniors, and emergency financial assistance. Another 14 percent (\$60,000) supports the Latino Outreach Program.

#### **High Quality Municipal Services**

The FY07 budget was developed with the assumption that the City will maintain the same high levels of service provided in FY06. The strong growth in revenues has allowed the City to accommodate higher utility, debt service, and personnel costs, as well as subsidizing the Parking District without sacrificing service levels or programs.

The City's longstanding commitment to providing a high level of basic municipal services is reflected in our citizen survey results. The semi-annual survey will be conducted again during FY07. The last survey conducted in 2005 indicated that Rockville residents are pleased with the City's performance. For example, 92 percent of respondents describe the quality of life in the City as "excellent" or "good" (29 percent rate it as "excellent" and 63 percent as "good"). Although 7 percent describe the quality of life as only "fair", we are extremely pleased that no respondents rate the quality of life as poor. These responses are consistent with the responses received in 2003.

In 2005, 81 percent of respondents rated the overall customer service provided by the City employees as either "excellent" (38 percent) or "good" (43 percent). That is slightly better than the 78 percent rating customer service as "excellent" or "good" in 2003.

In terms of specific services, respondents rated the following services as "excellent" or "good" in 2005: street repairs and maintenance – 64 percent (59 percent in 2003), residential property maintenance/code enforcement – 67 percent (64 percent in 2003), recreational programs – 86 percent (87 percent in

2003). 75 percent of respondents agreed or strongly agreed that the Rockville Police are helpful and cooperative, compared to 74 percent in 2003.

While we are pleased with the results, there is room for improvement. What we have learned will help us address problem areas, and we look forward to the FY07 results.

#### Pay for Performance

The Mayor and Council approved a Pay for Performance program to be implemented at the start of FY07. The program will replace the current merit system whereby employees have been rewarded for longevity without sufficient emphasis on performance. The program is built upon the recently implemented new employee evaluation form, and is line with the City's High Performance Organization (HPO) philosophy.

In addition, the Pay for Performance program will assist the City with its recruitment and retention of professional employees. The City finds itself in an extremely competitive national market for highly skilled talent in all areas from engineering to planning, recreation to public safety, and finance. With very low regional unemployment, it is imperative that the City continues to invest in its employees, by rewarding exceptional performance, and providing competitive salaries and benefits, opportunities for professional development, and providing adequate tools and facilities.

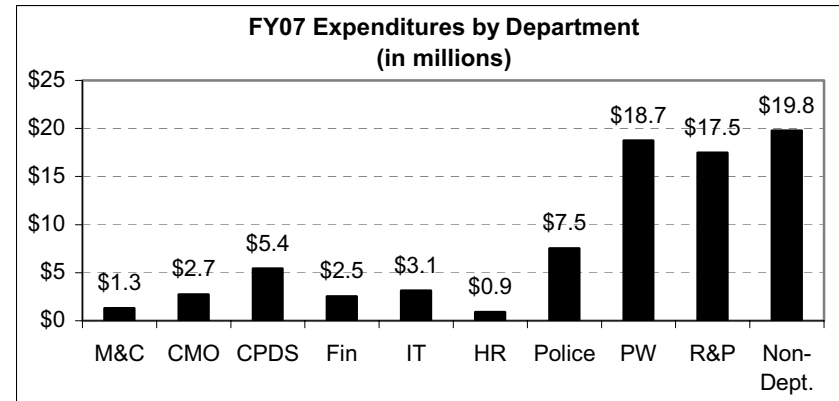
#### Reorganization

Recruitment issues and vacancies can provide opportunities to refocus limited resources where they are most needed, and provide services more efficiently. This budget implements a reorganization of the Community Services Department that had begun in FY06. Specifically, the department will become a division within the Department of Recreation and Parks, and the programs will be altered to serve a greater number of those in need.

The City is currently looking at its overall strategic organizational development program, and the adopted budget includes resources to make the Organizational Development Coordinator a full-time position. The Employee Wellness Program with 0.5 FTE was transferred from the City Manager's Office to the Department of Recreation and Parks. The City's Environmental Protection program with 1.0 FTE was transferred from the Department of Community Planning and Development Services to the Department of Public Works and was expanded to include a new 1.0 FTE Chief of Environmental Management.

#### Budget Overview

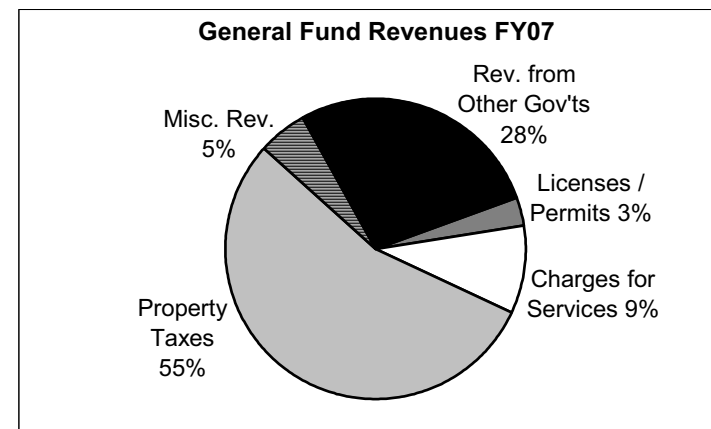
The adopted FY07 operating budget totals \$85.7 million for the City's eleven operating funds. This represents an overall decrease of 3.8 percent from the FY06 adopted budget. Adjusting for the \$12.3 million repayment of the City's bond anticipation notes in FY06, the FY07 budget is 11.7 percent over what was adopted in FY06. The following graph reflects total resource allocation by department for FY07.



The majority of the City's spending comes from the tax-supported General Fund. Other significant funds include the Water, Sewer, Refuse, Parking, Stormwater Management, and Golf funds. User fees charged to City households, businesses, and golf course users support these funds. Six-year cash flow projections prepared as part of the budget process determine the fees charged. Each fund is described in more detail below.

#### General Fund

The General Fund constitutes the City's single largest discretionary operating budget. The City's goal is to balance the General Fund operating budget without the need to rely on reserves, and this budget achieves this for FY07. The adopted FY07 General Fund budget of \$56.2 million is 10.4 percent higher than what was adopted for FY06. The General Fund growth is characterized by strong revenue growth predominantly in real property tax (13 percent) and income tax (14.1 percent). In addition, the City anticipates higher revenues from the red light camera program and interest earnings. In total, the City should receive approximately \$5.3 million more than was adopted for FY06. The Fund Summary section of the adopted budget includes detailed information on the major FY07 General Fund revenue sources. The following graph summarizes the sources.

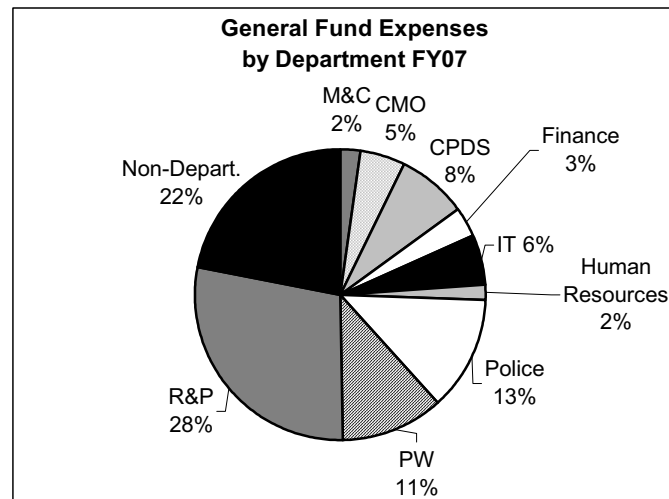


At \$56.2 million, the FY07 General Fund budget includes \$5.3 million of expenditure authority above the FY06 General Fund budget. The following table highlights where the \$5.3 million has been allocated.

Expenditures by Type:	Adopted FY06	Adopted FY07	Amount Change	Percent Change	Percent of FY07
Salaries	25,181,478	25,919,159	737,681	2.9%	46.1%
Benefits	7,117,891	7,508,761	390,870	5.5%	13.4%
Overtime	650,619	646,429	-4,190	-0.6%	1.1%
Personnel Subtotal	32,949,988	34,074,349	1,124,361	3.4%	60.6%
Contract Services	6,920,726	7,079,902	159,176	2.3%	12.6%
Commodities	3,863,439	4,602,285	738,846	19.1%	8.2%
Operating Subtotal	10,784,165	11,682,187	898,022	8.3%	20.8%
Capital	566,310	584,636	18,326	3.2%	1.0%
Other/Transfer	1,033,813	2,438,359	1,404,546	135.9%	4.3%
Contrib. to the CIP	1,607,286	1,812,824	205,538	12.8%	3.2%
Debt Service	4,019,712	5,650,800	1,631,088	40.6%	10.0%
<b>Total</b>	<b>\$50,961,273</b>	<b>\$56,243,155</b>	<b>\$5,281,882</b>	<b>10.4%</b>	<b>100.0%</b>

Personnel costs will be increasing in total by a modest 3.4 percent or \$1.1 million, which includes a cost of living adjustment (COLA) of 2.5 percent, all merit changes, and funding for pay for performance for administrative scale and Recreation and Parks scale employees. FY07 benefited FTE's in the General Fund will increase from 403.6 to 406.4.

The biggest General Fund cost drivers for FY07 will be the increase in debt service costs, the costs of utilities including natural gas, electricity, and gasoline, and the cost of funding the parking revenue gap.



The table below reflects the General Fund allocation of resources arranged by department. One notices a shift of resources from departments to Non-Departmental which represents funding of City debt service and the funding of the parking garages and the City's CIP.

Expenditures by Department:	Adopted FY06	Percent FY06	Adopted FY07	Percent FY07
Mayor and Council	1,261,284	2.5%	1,278,368	2.3%
City Manager	2,681,457	5.3%	2,741,321	4.9%
CPDS	4,471,462	8.8%	4,465,167	7.9%
Finance	1,722,106	3.4%	1,832,428	3.2%
IT	3,022,634	5.9%	3,135,659	5.6%
Community Services	1,198,228	2.4%	0	0.0%
Human Resources	894,763	1.8%	909,516	1.6%
Police	6,784,719	13.3%	7,191,131	12.8%
Public Works	5,488,515	10.8%	6,407,236	11.4%
Rec. and Parks	14,125,146	27.7%	15,879,314	28.2%
Non-Departmental	9,310,960	18.3%	12,403,014	22.1%
<b>Total</b>	<b>\$50,961,273</b>	<b>100.0%</b>	<b>\$56,243,155</b>	<b>100.0%</b>

#### City Enterprise Funds

The City operates six enterprise funds for the provision of water, sewer, refuse, parking, stormwater and golf services. These funds operate and account for their transactions in a way similar to private industry. One of the objectives of the funds is to be self supporting, i.e. their fees and charges are supposed to be sufficient to recover all operating costs, both direct and indirect, and all capital outlay, infrastructure and debt service costs. Each of these funds has had an independent study of its financial condition performed during the past year, and the FY07 budget has rates recommended and resources provided that promote the viability and long term financial health of the funds.

The following chart summarizes the costs of water, sewer and refuse charges for the "typical" homeowner:

	FY05	FY06	FY07	FY06-FY07 Change
Water (72,000 gal/yr) *	\$149	\$163	\$152	-6.7%
Sewer (72,000 gal/yr) *	\$260	\$270	\$279	3.3%
Refuse Charge	\$373	\$406	\$422	3.9%
<b>Total</b>	<b>\$782</b>	<b>\$839</b>	<b>\$853</b>	<b>1.7%</b>

\* Change in rate structure adopted in FY07. Amounts may not be directly comparable to prior years.

### Water Facility Fund

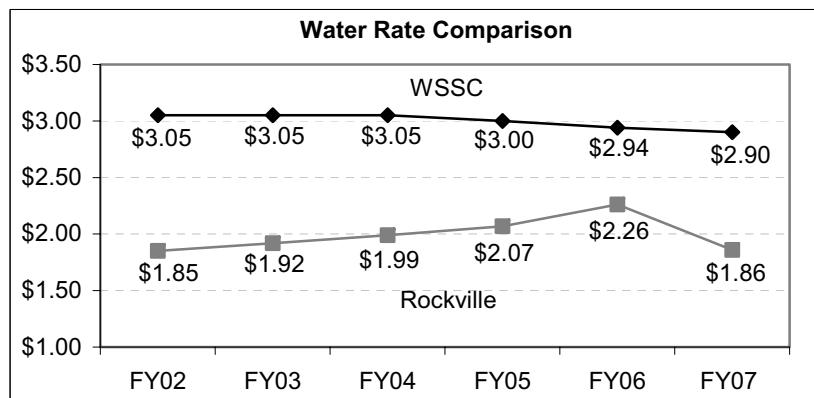
A recently completed study of the Water Fund completed by Municipal & Financial Services Group (MFSG) was presented to the Mayor and Council in March 2006. Several changes to the design of the water rate structure were adopted for implementation in FY07. These changes will include fixed charges based on meter sizes and tiered rates for the usage component of the water bill. This will result in redistributing some of the system costs to the highest users. The study reflects that successive annual usage rate increases are needed for the next several years to bring the Fund's financial status back to health.

The adopted budget for the Water Fund recommends a tiered water rate schedule tied to usage. The rate for the first 12,000 gallons per quarter would be \$1.62 per thousand gallons; the rate for the next 12,000 gallons would be \$2.33 per thousand gallons; and the rate for usage beyond 24,000 gallons per quarter would be \$2.50 per thousand gallons. In addition, each business or household would pay a flat fee each quarter for water and sewer service based on the size of the meter.

FY07 will continue the ongoing investment in the system's infrastructure with a comprehensive meter change-out program. This will allow for improved efficiencies in reading meters and billing, and allow for more accurate collections of revenues. Aging meters do not provide accurate readings, which results in lost revenues.

One new position, an operator trainee, was adopted for the water treatment plant. This position is needed due to the shortage of certified technicians in the market place and the length of time it takes for a trainee to become certified to be able to operate the plant.

The following graph compares Rockville's water rate to the rate charged by the Washington Suburban Sanitary Commission (WSSC) between FY02 and FY07. Rockville continues to provide City customers with a relatively good value by producing quality water at a rate below WSSC's.

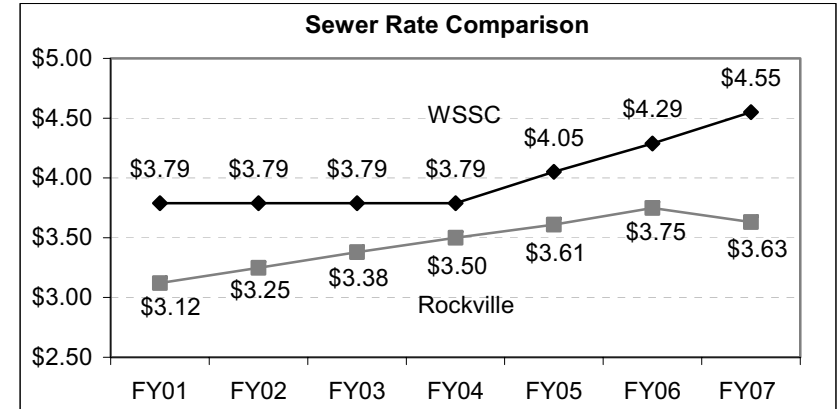


Note: The rates shown above represent the usage charge per 1,000 gallons, assuming an average usage of 250 gallons per day. In addition to usage charges, WSSC charges an \$11.00 per quarter flat fee. Rockville is proposing a quarterly fee that will be \$9.00 for most households, but varies by the size of the meter.

### Sewer Fund

Similar to the Water Fund, a detailed study by MFSG was presented to the Mayor and Council in March of 2006. The study recommended a sewer rate of \$3.63 per 1,000 gallons, which is a reduction of twelve cents from the FY06 rate of \$3.75. In addition, though, the study advised a flat fee be charged to all customers based on meter size. This is the same fee mentioned in the discussion of the Water Fund, and it would be divided equally between the two funds. In sum, the average Rockville household would pay \$279 per year for sewer service. This estimate is the sum of the rate charge and the flat fee.

Nearly all of the capital costs in the Sewer Fund, and a substantial portion of the operating costs, are payments for the operation of and capital improvements to the District of Columbia Water and Sewer Authority's (DCWASA) Blue Plains Wastewater Treatment Plant. The 1998 Master Plan for the DCWASA included a significant increase in planned capital costs, as reflected in the Blue Plains Wastewater Treatment CIP project. Even with the rate increase for FY07, the utility has to borrow the money to fund the work at Blue Plains. Despite the FY07 increase, the City's rate remains below WSSC's. The following graph compares the Rockville and WSSC rates.



Note: WSSC charges an \$11.00 per quarter flat fee; Rockville is proposing a quarterly fee that will be \$9.00 for most households, but varies by the size of the meter.

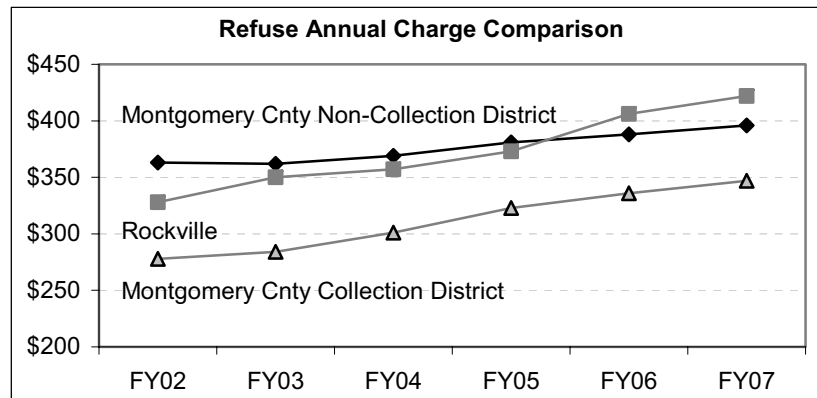
### Refuse Fund

A cash flow analysis of the Refuse Fund has identified the need for a \$1.50 increase in the monthly rate for refuse collection, disposal, and recycling services. The FY07 rate of \$31.00 per month is a 5.1 percent increase from FY06. A presentation made to the Mayor and Council in November 2005 reflected that the Fund was in a serious financial decline and that changes were needed in order to run a viable refuse program. Some of the challenges identified were the labor intensive method of service delivery and the inherent subsidies based on a "one price fits all" levels of service. Without major changes to the system, residents will be faced with successive annual increases to bring the Fund back to a healthy financial status, and customers with the lowest service needs will continue to subsidize high service level customers.

Consequently, the Mayor and Council unanimously approved a pilot program to test a change from the current system of twice a week manual collection with back door option, to a once per week schedule using semi-automated curbside collection. The pilot began in March of FY06 and will run through fall of FY07. The program was implemented with 778 Rockville households, and the information garnered will be analyzed so that staff can make a recommendation to the Mayor and Council as to what changes, if any, to implement for the refuse program as a whole.

City residents will pay \$422 total for refuse services in FY07. Residents will pay the City \$372 divided into quarterly payments and will pay Montgomery County a \$50 systems benefit charge with their tax bill.

The following graph compares Rockville's refuse rates to Montgomery County's. It combines both refuse payments, system charges, and other costs included on annual tax bills. The City's refuse rate is higher than the FY07 rates for Montgomery County. However, City services include twice-weekly collection, additional fall and spring leaf collections and unlimited special pick-ups, which the County does not provide.



#### Parking Fund

FY07 will be a challenging year for the Parking Fund. In FY06, financing was obtained for the construction of three public garages within the Town Center development. The Fund's annual debt service totals \$2.1 million; a substantial portion of this amount will have to be funded with a transfer from the City's General Fund. The latest data analyzed reflects that there will not be sufficient revenue generated from parking revenue to service this debt, and an annual transfer from the City's General Fund will be required. Estimates of this "revenue gap," once the operations of the garages are stabilized, will be between \$500,000 and \$800,000 annually for the thirty-year life of the bonds, depending on the Mayor and Council's final policy decisions regarding parking rates.

It is the Mayor and Council's policy that all parking revenue generated by all meters throughout the City be dedicated to servicing the debt incurred to construct the garages. The City is reliant on both the meter revenue and parking violation revenue to pay for the costs of constructing the garages.

#### Stormwater Management Fund

Changes in the rate of development in the City are also impacting the Stormwater Management Fund. As the rate of development slows, fewer dollars come into the Fund to support growing stormwater management needs throughout the City. The results of a three-phase study of the Fund will be brought forward to the Mayor and Council late this summer. The study will discuss various options available to enable the stormwater management program to become self-sustaining.

#### Golf Fund

The Golf Fund showed a growing cash deficit of over \$400,000 at the end of FY05, and has a FY07 budget deficit of \$150,000. The Department of Recreation and Parks has been working diligently to improve marketing and promotion, and adjust operations and reduce expenses to eliminate the deficit over time. A detailed report that analyzed the financial situation of the golf course was presented to the Mayor and Council in March 2006. The Mayor and Council adopted a business plan based on this analysis in May 2006. To address the deficit in the Fund, the administrative charge was reduced by half, marketing efforts will be intensified, and the course will benefit from additional capital improvements.

#### **Looking Forward**

The City's current financial situation requires that we continue our responsible fiscal practices in managing expenditures and revenues. First, we need to respond appropriately to changing growth patterns. For many years, new development and growth have helped fund a steady stream of new projects, facilities and services. As Rockville reaches its growth potential, we will be less able to look to growth and new development as sources of increasing revenue. Future property tax revenues will increasingly be a function of redevelopment and reassessments of existing property.

Second, we must continue to carefully consider how reserves, including any surplus, are used. Retaining reserves for unexpected expenses is important, particularly given the large capital projects currently under construction and planned for the near future. It is also important to keep in mind that unless overall service levels are reduced, or selected programs are eliminated, expenditures will continue to rise over time. We need to be prepared to fund those rising expenditures and, where possible, to contain them by improving our operational efficiency.

Thirdly, we must be vigilant in regard to the City's debt management and our capital planning. The City should be looking for every opportunity to reduce its debt burden and live within our means for our capital projects. We will need to look at overall prioritizing of the City's CIP and decide for which projects the City is willing and able to borrow money.

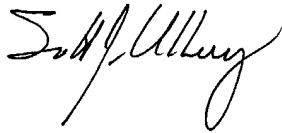
## Conclusion

I would like to thank all of the City staff that contributed to preparing the adopted budget. A vast amount of work goes into producing the budget document. The budget process is truly one project that involves all City departments. The many people working together on its production exemplifies the values of teamwork, craftsmanship, and public service that guide City staff in all of our work throughout the year. The Budget Officer Dominic Del Pozzo, and analysts, Gil Francisco and Stacey Tate deserve particular recognition for their efforts. I would also like to thank the Department Directors, and their staff, for their significant contributions in preparing this budget and for their excellent management within their departments.

While uncertainties and challenges lie ahead, the City's financial policies and conservative approach will allow the City to remain in a strong financial position for FY07. We have reached a critical juncture. We need to fulfill and complete the City's investment in Town Square and allow the investment to perform and over time stimulate Town Center's redevelopment. We need to be prepared for the time when the housing market cools off, our revenue growth slows down, and for other revenue imponderables involving other governments. Finally, we need to remain able to adapt for the service needs of the ever changing demographic and social changes that Rockville is currently experiencing, and will continue to experience.

The adopted budget as presented utilizes available resources in an effective and responsible manner. The budget is in line with all previous policy direction as set by the Mayor and Council, and includes sufficient resources to fulfill the newly adopted Mayor and Council visions and priorities. On behalf of our dedicated City staff, without which none of our programs and services would be possible, we look forward to FY07 and the many exciting challenges and opportunities that await us.

Respectfully,



Scott Ullery  
City Manager





# Summary of Position Changes FY06 – FY07

New and deleted positions for FY07 result in have a net increase of 7.3 regular, or benefited, FTEs and are listed below by department.

## Department of City Manager (net increase of 0.5 FTE)

- Part-time Secretary II increased from 0.5 to 1.0 FTE
- Organizational Development Administrator increased from 0.8 to 1.0 FTE
- Transfer out Wellness Coordinator to the Recreation and Parks Department

## Department of Planning and Community Services (no change in total FTEs)

- Transfer out 1.0 FTE Environmental Specialist to Public Works Department
- 1.0 FTE Zoning Inspector added to the Inspection Services Division

## Department of Community Services (decrease of 13.5 FTEs due to reorganization)

- Transfer out 1.0 FTE Secretary II to Code Enforcement and Community Enhancement Division of the Police Department
- Transfer out 7.5 FTEs to the Community Services Division of the Recreation and Parks Department
- Deletion of 5.0 FTEs

## Department of Finance (net increase of 0.5 FTE)

- Controller position changed to Senior Accountant with the same 1.0 FTE
- 0.5 FTE part-time Buyer added to Purchasing Division

## Department of Police (net increase of 7.5 FTEs)

- 1.0 FTE Police Officer added to Field Services Bureau
- 1.0 FTE Photo Enhancement Analyst added to Special Services Bureau
- 4.0 FTEs (1.0 Parking Enforcement Supervisor, 3.0 Parking Enforcement Officers) added for the Town Center Parking Garages/District
- Transfer in 1.0 FTE Secretary II to Code Enforcement and Community Enhancement from the former Community Services Department
- 0.5 FTE Secretary I added to the Administrative Services Bureau

## Department of Public Works (net increase of 4.5 FTEs)

- 1.0 FTE Operator Trainee added to Water Treatment Plant Division
- 1.0 FTE Engineering Technician I added to Contract Management Division
- Transfer in 1.0 FTE Environmental Specialist from CPDS
- 1.0 FTE Chief of Environmental Management added
- 0.5 FTE Permit Tech. added to Development Review, Engineering Division

## Department of Recreation and Parks (net increase of 7.8 FTEs)

- Deletion of three part-time (0.4 FTE each) Childcare Group Leaders
- Deletion of 1.0 FTE Golf Technician
- Reduction from 0.8 to 0.4 FTEs for Childcare Director and Group Leader
- 1.0 FTE Community Center Supervisor added for the Thomas Farm Community Center (expected to start in mid-FY07)

- 0.5 FTE part-time Program Assistant added for the Cultural Arts Building Rooftop operations (expected to start in late-FY07)
- Part-time Clerk (Senior Center Registration) increased from 0.5 to 1.0 FTE
- Two 0.5 FTE Program Assistant positions reduced to a single position of 0.8 FTE in Senior Center Recreation
- Transfer in 0.5 FTE Wellness Coordinator from Department of City Manager
- Transfer in 7.5 FTEs from the former Department of Community Services (four new positions; 1.0 FTE Secretary III; 2.5 FTEs Linkages to Learning)
- 1.0 FTE Forestry Inspector added to the Forestry Development, Parks and Open Space Division (expected to start in mid-FY07)

<b>Regular Positions by Department:</b>	<b>FY06 Adopted</b>	<b>Additions</b>	<b>Deletions</b>	<b>FY07 Adopted</b>
Mayor and Council	4.5	0.0	0.0	4.5
City Manager	21.1	1.0	0.5	21.6
Com. Planning & Dev. Services	45.0	1.0	1.0	45.0
Finance	28.5	1.5	1.0	29.0
Information and Technology	21.0	0.0	0.0	21.0
Community Services *	13.5	0.0	13.5	0.0
Human Resources	8.0	0.0	0.0	8.0
Police	78.0	7.5	0.0	85.5
Public Works	154.0	4.5	0.0	158.5
Recreation and Parks	150.4	11.8	4.0	158.2
<b>Regular Position FTE Total:</b>	<b>524.0</b>	<b>27.3</b>	<b>20.0</b>	<b>531.3</b>

<b>Temporary Positions by Department:</b>	<b>FY06 Adopted</b>	<b>Additions</b>	<b>Deletions</b>	<b>FY07 Adopted</b>
Mayor and Council	0.7	0.0	0.1	0.6
City Manager	0.8	0.0	0.8	0.0
Com. Planning & Dev. Services	0.6	2.0	0.1	2.5
Finance	0.1	0.0	0.0	0.1
Information and Technology	2.1	0.0	0.2	1.9
Community Services*	0.1	0.0	0.1	0.0
Human Resources	0.1	0.0	0.0	0.1
Police	1.5	0.0	0.5	1.0
Public Works	11.4	0.0	9.0	2.4
Recreation and Parks	77.5	5.3	0.0	82.8
<b>Temp. Position FTE Total:</b>	<b>94.9</b>	<b>7.3</b>	<b>10.8</b>	<b>91.4</b>
<b>Grand Total FTEs all positions:</b>	<b>618.9</b>	<b>34.6</b>	<b>30.8</b>	<b>622.7</b>

\* Dept. of Community Services was reorganized in FY07 and become a division in Recreation and Parks.

# Full Time Equivalent Positions

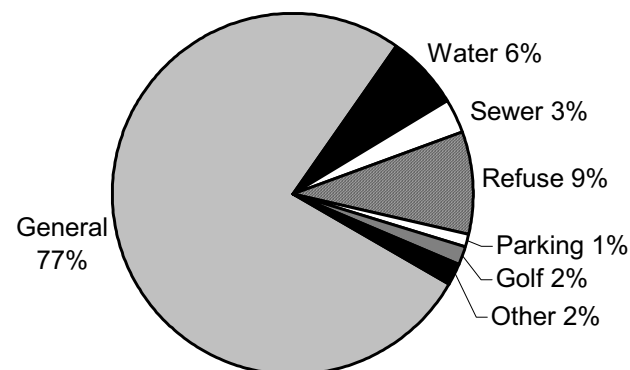
Each City of Rockville position, whether regular or temporary in status, is allotted a full-time equivalent (FTE). The FTE associated with each position is then charged against a fund (or funds) determined to be most appropriate to that job, based on the scope of work being performed. Benefits provided with each position are offered on a pro-rata basis based on the FTE count. The charts below list the regular FTEs (top chart) and the temporary FTEs (bottom chart) by fund. The charts listing the allocation of regular and temporary FTEs by department are on the following page.

Regular Positions:	FY05 Actual	FY06 Adopted	FY06 Actual	FY07 Adopted
General	404.7	403.6	403.0	406.4
Water Facility	31.5	33.3	33.3	34.3
Sewer	15.4	16.5	16.5	16.5
Refuse	49.5	48.4	48.4	48.4
Parking	2.0	2.5	2.5	6.25
Town Center Management	0.0	0.0	0.0	0.25
Stormwater Management	5.0	6.0	6.0	6.0
RedGate Golf Course	10.8	10.8	9.8	9.8
Special Activities	0.0	0.0	0.0	0.5
Community Development Block Grant	1.0	0.9	0.9	0.9
Capital Projects Fund	2.0	2.0	2.0	2.0
<b>Regular FTE Total</b>	<b>521.9</b>	<b>524.0</b>	<b>522.4</b>	<b>531.3</b>

Temporary Positions:	FY05 Actual	FY06 Adopted	FY06 Actual	FY07 Adopted
General	79.4	79.4	82.8	84.0
Water Facility	0.1	0.4	0.1	0.3
Sewer	0.0	0.4	0.1	0.3
Refuse	4.2	8.7	8.5	0.0
Parking	0.0	0.0	0.0	0.0
Stormwater Management	0.0	0.8	0.8	0.8
RedGate Golf Course	5.7	5.2	7.5	5.9
Special Activities	0.0	0.0	0.0	0.1
Community Development Block Grant	0.0	0.0	0.0	0.0
Capital Projects Fund	0.0	0.0	0.0	0.0
<b>Temporary FTE Total:</b>	<b>89.4</b>	<b>94.9</b>	<b>99.8</b>	<b>91.4</b>

<b>Grand Total FTEs for all Positions:</b>	<b>611.3</b>	<b>618.9</b>	<b>622.2</b>	<b>622.7</b>
--	--------------	--------------	--------------	--------------

Regular FTEs by Fund FY07

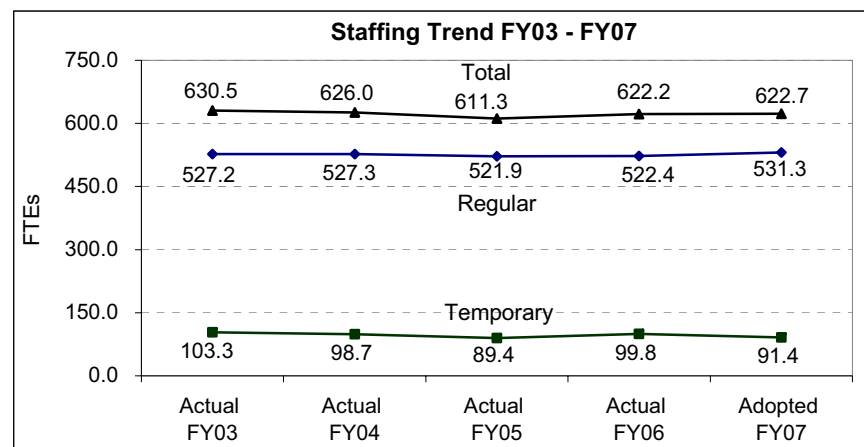


# Full Time Equivalent Positions

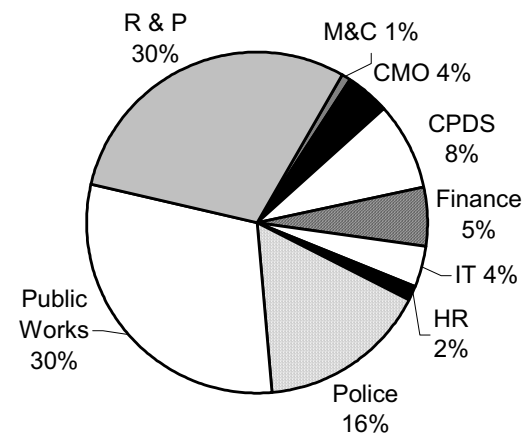
The charts below list the allocation of regular FTEs (top chart) and temporary FTEs (bottom chart) by department.

Regular Positions:	FY05 Actual	FY06 Adopted	FY06 Actual	FY07 Adopted
Mayor and Council	5.5	4.5	4.5	4.5
City Manager	16.1	21.1	21.4	21.6
Com. Planning and Dev. Services	44.0	45.0	45.0	45.0
Finance	27.5	28.5	28.5	29.0
Information and Technology	21.0	21.0	21.0	21.0
Community Services	27.0	13.5	13.0	0.0
Human Resources	8.0	8.0	8.0	8.0
Police	68.5	78.0	79.0	85.5
Public Works	154.0	154.0	154.0	158.5
Recreation and Parks	150.3	150.4	148.0	158.2
<b>Regular Position FTE Total:</b>	<b>521.9</b>	<b>524.0</b>	<b>522.4</b>	<b>531.3</b>

Temporary Positions:	FY05 Actual	FY06 Adopted	FY06 Actual	FY07 Adopted
Mayor and Council	0.6	0.7	0.7	0.6
City Manager	0.1	0.8	0.8	0.0
Com. Planning and Dev. Services	1.3	0.6	2.3	2.5
Finance	0.1	0.1	0.1	0.1
Information and Technology	1.3	2.1	2.3	1.9
Community Services	0.2	0.1	0.1	0.0
Human Resources	0.1	0.1	0.1	0.1
Police	1.5	1.5	1.0	1.0
Public Works	6.6	11.4	10.6	2.4
Recreation and Parks	77.6	77.5	81.8	82.8
<b>Temp. Position FTE Total</b>	<b>89.4</b>	<b>94.9</b>	<b>99.8</b>	<b>91.4</b>
<b>Grand Total FTEs for all Positions:</b>	<b>611.3</b>	<b>618.9</b>	<b>622.2</b>	<b>622.7</b>



**Regular FTEs by Department FY07**



# Budget Development Process

**General** — The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a five-year capital improvement plan is presented for the Council's review. The Mayor and Council schedule and publish advance notices of public hearings. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance. The City amends the budget throughout the fiscal year as needed.

**FY07 Operating Budget** — In October 2005, City Management and Budget staff presented to Mayor and Council the FY07 financial picture and alternative scenarios, and sought and obtained general directions and guidance in preparing the FY07 Budget.

Management and staff conducted a review of each department's operating budget and all CIP projects. In November 2005, established targets and worksheets were distributed to departments. In January 2006, the City Manager held meetings with the senior management team and division heads to discuss priorities for the coming year. A number of additional requests for increased funding were discussed and incorporated into the departmental budgets.

A preliminary worksession took place on February 21, 2006 with the Mayor and Council to discuss general budget issues and obtain definitive directions in preparing the proposed FY07 Budget. The collective recommendations of the senior management team formed the basis for the City Manager's recommended budget.

During March 2006, the budget staff prepared the FY07 Proposed Operating Budget and FY07 - FY11 Capital Improvements Program for presentation to the Mayor and Council on April 3, 2006. After the Mayor and Council and the senior management team reviewed and discussed the budget, public hearings were held on April 24, 2006 and May 1, 2006, to solicit citizen responses to the proposed budget.

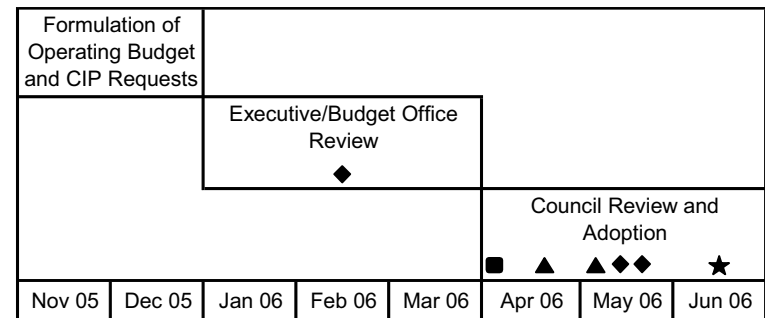
Following the public hearings, the Mayor and Council conducted worksessions on May 15, 2006 and May 22, 2006 to discuss the budget prior to adoption. On June 5, 2006, the Mayor and Council approved the budget and adopted ordinances that set the property tax rate, the water and sewer rates, and the refuse charge.

During June and July 2006, the budget staff prepared and implemented the FY07 Adopted Operating Budget and FY07 - FY11 Capital Improvements Program. The adopted budget for FY07 took effect on July 1, 2006.

**FY07 Capital Improvements Program** — In October 2005, the City Manager solicited requests from departments, neighborhoods, and homeowners associations for Capital Improvements Program (CIP) projects. The due date for submitting requests was October 11, 2005. One request was submitted and can be found on page 12 of the CIP Book (separate book).

The adopted operating budget and CIP are available on the City's Website ([www.rockvillemd.gov](http://www.rockvillemd.gov)) and highlights are available on *The Rockville Channel* (Ch.11) and in *Rockville Reports*.

The chart below is a monthly time-line of the major components of the FY07 budget development process.



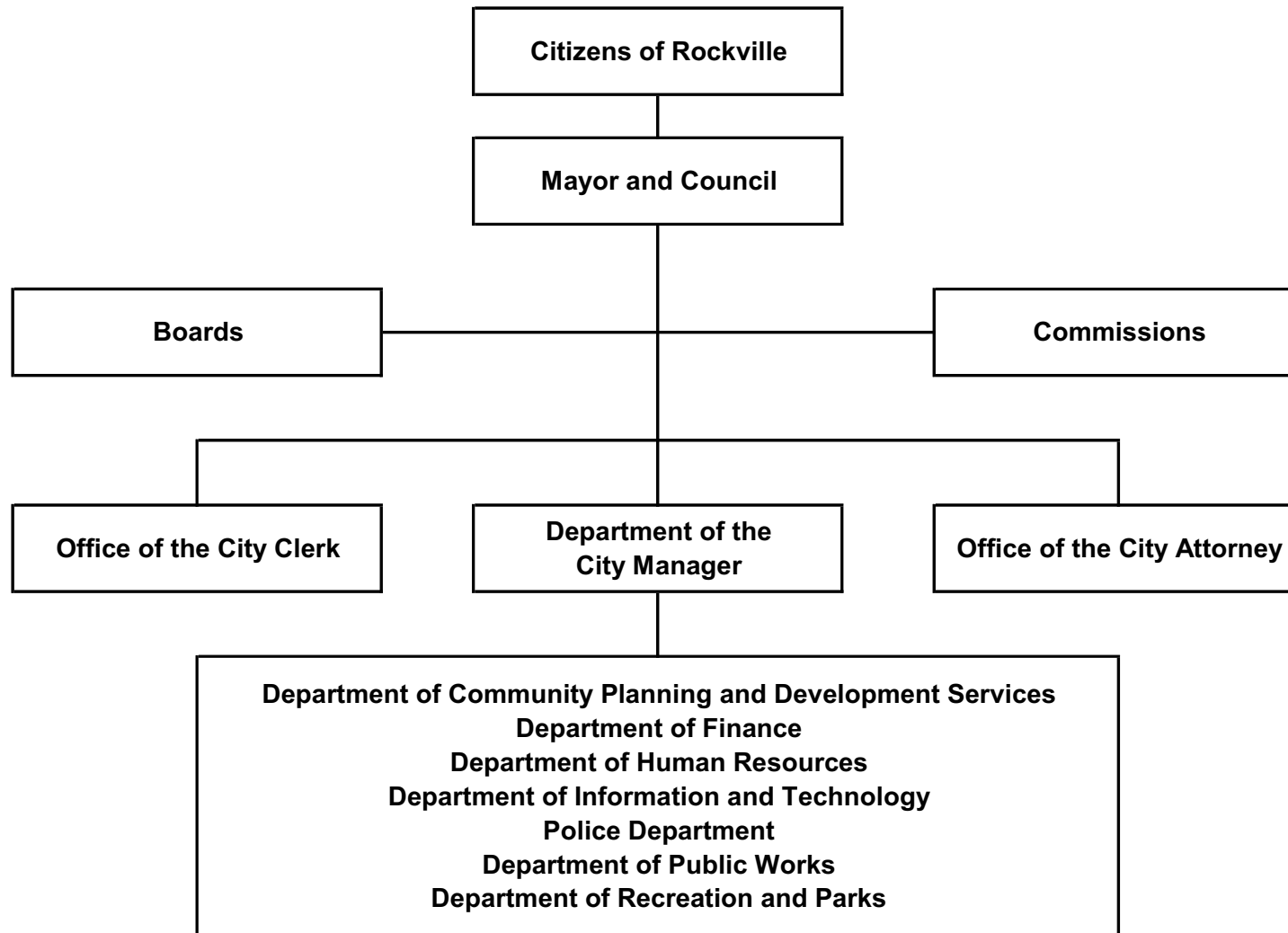
◆ Worksessions: Feb. 21, 2006  
May 15, 2006  
May 22, 2006

■ Presentation: April 3, 2006

▲ Public Hearings: April 24, 2006  
May 1, 2006

★ Adoption: June 5, 2006

# City of Rockville Organizational Chart





# Rockville City Hall

Rockville City Hall  
111 Maryland Avenue

